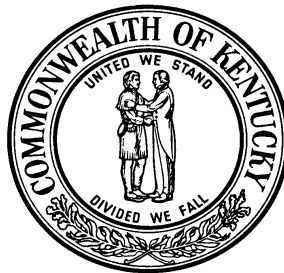


**REPORT OF THE AUDIT OF THE
LAUREL COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
January 1, 2007 Through June 5, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LAUREL COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
January 1, 2007 Through June 5, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Laurel County Sheriff for the period January 1, 2007 through June 5, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,941,867 for the districts for 2006 taxes, retaining commissions of \$96,385 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,838,127 to the districts for 2006 Taxes. Taxes of \$91 are due to the districts from the Sheriff and refunds of \$2,045 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$369,226 And Enter Into A Valid Written Agreement To Protect Deposits
- The Sheriff's Office Lacks An Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of February 7, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$369,226

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Lawrence Kuhl, Laurel County Judge/Executive
Honorable Fred Yaden, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the Laurel County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through June 5, 2007. This tax settlement is the responsibility of the Laurel County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Laurel County Sheriff's taxes charged, credited, and paid for the period January 1, 2007 through June 5, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 9, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Lawrence Kuhl, Laurel County Judge/Executive
Honorable Fred Yaden, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$369,226 And Enter Into A Valid Written Agreement To Protect Deposits
- The Sheriff's Office Lacks An Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 9, 2008

LAUREL COUNTY
FRED YADEN, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period January 1, 2007 Through June 5, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred from Outgoing				
Sheriff	\$ 228,461	\$ 456,540	\$ 1,589,428	\$ 514,359
Franchise Taxes	71,540	172,476	494,705	
Additional Billings	582	1,062	4,022	1,132
Unmined Coal - 2006 Taxes	164	310	1,146	323
Oil Property Taxes	87	165	608	171
Gas Property Taxes	349	661	2,439	688
Penalties	12,364	24,872	86,020	29,064
	<u>313,547</u>	<u>656,086</u>	<u>2,178,368</u>	<u>545,737</u>
Gross Chargeable to Sheriff				
<u>Credits</u>				
Exonerations	2,533	4,908	17,626	5,253
Discounts	375	937	2,586	50
Delinquents:				
Real Estate	56,329	109,919	391,503	110,785
Tangible Personal Property	1,005	2,558	7,021	5,622
Franchise Taxes	3,122	7,938	21,801	
	<u>63,364</u>	<u>126,260</u>	<u>440,537</u>	<u>121,710</u>
Total Credits				
Taxes Collected	250,183	529,826	1,737,831	424,027
Less: Commissions (a)	10,633	22,135	45,596	18,021
	<u>239,550</u>	<u>507,691</u>	<u>1,692,235</u>	<u>406,006</u>
Taxes Due				
Taxes Paid	238,919	506,605	1,688,264	404,339
Refunds (Current and Prior Year)	795	1,419	5,421	1,674
	<u>795</u>	<u>1,419</u>	<u>5,421</u>	<u>1,674</u>
		(b)	(c)	
Refunds Due Sheriff				
as of Completion of Audit	\$ (164)	\$ (333)	\$ (1,450)	\$ (7)

(a), (b), and (c) – See following page.

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 FRED YADEN, SHERIFF
 SHERIFF'S SETTLEMENT - 2006 TAXES
 For The Period January 1, 2007 Through June 5, 2007
 (Continued)

(a) Commissions:

4.25% on	\$	1,192,256
2.626% on	\$	1,706,977
2.5% on	\$	30,854
1% on	\$	11,780

(b) Special Taxing Districts:

Library District	\$	(156)
Health District		(101)
Extension District		(40)
Soil Conservation District		(10)
Bush Fire District		<u>(26)</u>

Refunds Due Sheriff	\$	<u><u>(333)</u></u>
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(c) School Districts:

Common School	\$	(1,541)
Graded School		<u>91</u>

Refunds Due Sheriff	\$	<u><u>(1,450)</u></u>
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The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT

For The Period January 1, 2007 Through June 5, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the sheriff's agreement with the financial institution was not approved by the board of directors of the depository institution or its loan committee.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
For The Period January 1, 2007 Through June 5, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 5, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of February 7, 2007, \$369,226 of public funds was exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$369,226

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 11, 2007 through June 5, 2007.

B. Unmined Coal Taxes

The unmined coal property tax assessments were levied as of January 1, 2006. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 26, 2007 through June 5, 2007.

Note 4. Interest Income

The Laurel County Sheriff earned \$2,328 as interest income on 2006 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of June 9, 2008, the Sheriff owed \$665 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Laurel County Sheriff collected \$108,297 of 10% add-on fees allowed by KRS 134.430(3). This amount was transferred to his fee account and used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Laurel County Sheriff collected \$2,030 of advertising costs and \$6,784 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of June 9, 2008, the Sheriff owed \$2,030 in advertising costs to the county. The advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lawrence Kuhl, Laurel County Judge/Executive
Honorable Fred Yaden, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Laurel County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through June 5, 2007, and have issued our report thereon dated June 9, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Laurel County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Laurel County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks An Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through June 5, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$369,226 And Enter Into A Valid Written Agreement To Protect Deposits

Laurel County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 9, 2008

COMMENTS AND RECOMMENDATIONS

LAUREL COUNTY
FRED YADEN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2007 Through June 5, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$369,226 And Enter Into A Valid Written Agreement To Protect Deposits

On February 7, 2007, \$369,226 of the Sheriff's deposits of public funds were uninsured and unsecured. In addition, the Sheriff's written agreement with the financial institution was not approved by the board of directors of the depository institution or its loan committee. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. In addition, the Sheriff should ensure his written agreement with the depository institution is approved by the board of directors or its loan committee. According to federal law, 12 U.S.C.A. § 1823(e), in order to be recognized as valid by the FDIC, this agreement, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response: I agree and did not realize that dropped below the safe amount. I knew we had the agreement between us and the bank in writing but did not realize the Board of Directors had not approved and put it in the minutes of the meeting.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY/MATERIAL WEAKNESS:

The Sheriff's Office Lacks An Adequate Segregation Of Duties

During our review of internal controls, we noted control deficiencies as defined by professional auditing standards in that the same individual performed almost all accounting functions relating to the collection of 2006 taxes (i.e. cash collections, reconciliations, and reporting processes). No compensating controls were noted to offset these control deficiencies. Therefore, these control deficiencies, in the aggregate, result in a lack of an adequate segregation of duties, which is considered to be a significant deficiency and a material weakness. While it may not be practical to segregate duties because of the small size of the office and budget restrictions, the Sheriff should establish compensating controls to address the lack of an adequate segregation of duties. The Sheriff could implement the following compensating controls to offset this internal control weakness:

- The Sheriff could periodically compare a daily tax collection report to the deposit slip, resolve any discrepancies, and document his review by initialing the deposit ticket.
- The Sheriff could periodically compare the bank reconciliation completed by his designated employee to the balance in the checkbook, resolve any discrepancies, and document his review by initialing the bank reconciliation.
- The Sheriff could compare total tax collections per the monthly reports to the totals per daily tax collection reports, resolve any discrepancies, and document his review by initialing the reports.

Sheriff's Response: We have made change for the 2007 tax year to improve in this area.

